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Shortsighted Stocks Bring Tall Profits

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BODY:

WE ARE on the hunt for short sales again.

Short sales are bets that particular stocks will fall. They are a risky technique because when you sell stocks short, it is possible to lose more money than your initial investment if the stocks rise.

We have seen a rally in the markets, but we suspect it will peter out pretty soon. Over the next few weeks, therefore, we expect to rebuild the "short side" of portfolios for clients who can stomach the risks.

The nine stocks we are about to name are not necessarily stocks we are going to sell short. But in several cases, we are considering it. In any event, they are stocks we would at least think twice before owning.

Let's look first at those with the highest price-earnings (P-E) ratios. The highest belonged to Manugistics Group Inc. The Rockville, Md.-based company earned a penny and a half per share in the past 12 months and sells for about $48. Its best year was 1998, when it earned 33 cents a share. So it is selling for 143 times peak earnings-and analysts don't expect that peak to be revisited in 2001 or 2002.

Bruker Daltonics Inc., with headquarters in Billerica, Mass., has a price of $21. Analysts predict earnings of 3 cents a share for 2000 and 6 cents for 2001. Well, at least they are predicting 100 percent earnings growth.

Vitria Technology Inc., of Sunnyvale, Calif., makes software for real-time electronic commerce. Its revenue for the past two quarters equates to about $165 million a year. The stock is at about $7 and earnings for the past four quarters were a penny a share.

Next, let's look at the companies with the highest price-sales ratios. Tops is Manhattan-based ImClone Systems Inc. The company so far has scant revenue and no earnings, yet is valued at $2.5 billion in the stock market.

Second in price-sales ratio was Titan Pharmaceuticals Inc. Analysts are counting on success for a new schizophrenia drug. They're probably right, but you're paying for it in advance. If they're wrong, you could lose 50 percent in a day.

Third by price-sales ratio is Human Genome Sciences Inc., based in Rockville, Md. Its financial results are not awe-inspiring. It has posted losses in 12 of the past 13 quarters, and its five-year revenue trend is negative. Debt as of Sept. 30 was 110 percent of equity.

Let's conclude by looking at three companies with high ratios of total debt to stockholders' equity. St. Louis-based Solutia Inc.'s debt amounts to 56 times shareholders' equity. It was born in debt when it was spun off from Monsanto Co. in 1997. Since then, debt has crept higher and stockholders' equity has fallen. The company has shown a profit every quarter but the profit has declined on a year-over-year basis in each of the past four quarters.

7-Eleven Inc. also has a high debt/equity multiple of about 25. The Dallas-based company has never recovered from disastrous losses in 1990 and 1992. It is 86 percent owned by a trio of Japanese companies.

Campbell Soup Co.'s has been on the rise in recent months, but we think it is vulnerable. Earnings are almost unchanged for the past five years and revenue has slightly declined.

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